

Message Text

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ACTION NEA-10

INFO OCT-01 EUR-12 ISO-00 SP-02 AID-05 EB-07 NSC-05 RSC-01

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COME-00 FRB-01 INR-05 NSAE-00 XMB-02 OPIC-03 LAB-04

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R 191425Z DEC 74

FM AMEMBASSY RABAT

TO SECSTATE WASHDC 4090

INFO AMEMBASSY BONN

AMEMBASSY BRUSSELS

AMCONSUL CASABLANCA

AMEMBASSY COPENHAGEN

AMEMBASSY DUBLIN

AMEMBASSY LONDON

AMEMBASSY LUXEMBOURG

AMEMBASSY PARIS

AMEMBASSY ROME

AMCONSUL TANGIER

AMEMBASSY THE HAGUE

USEC BRUSSELS

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E.O. 11652: N/A

TAGS: ECON EFIN EINV EMIN MO

SUBJ: MOROCCAN ECONOMY: YEAR-END ASSESSMENT OF GENERAL
FINANCIAL CONDITIONS

1. SUMMARY: DISCUSSIONS WITH GOM OFFICIALS AND AMERICAN BANK
REPRESENTATIVE HAVE EXPOSED SOME INCONSISTENCIES IN ASSESSING
CURRENT ECONOMIC SITUATION, BUT REVEAL CONSENSUS THAT MOROCCAN
ECONOMY IN FOR SOME ROUGH WEATHER. STILL BETTER POSITIONED
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THAN MOST NON-OIL LDC'S DESPITE TIGHT MONEY, RISING INTEREST

RATES, POOR CROP PROSPECTS, GALLOPING INFLATION, AND EMERGING BUDGETARY DILEMMAS, GOVERNMENT OF MOROCCO CONFRONTS SOME TOUGH DECISIONS. OUTLOOK IS FOR SOMEWHAT HIGHER PRICES FOR SUBSIDIZED FOODS, REALLOCATION OF SOME OF DEVELOPMENT BUDGET INTO OPERATIONS, RISING UNEMPLOYMENT, INCREASED CHARGES FOR EXPORTED PHOSPHATE ROCK, AND SUBSTANTIAL BORROWING IN EURO-CAPITAL MARKET. END SUMMARY.

2. LOOKING TOWARDS END OF YEAR REPORTS AND NEW DEVELOPMENT ASSISTANCE PROGRAM SUBMISSION, EMBOFFS HAVE HAD DISCUSSIONS IN RECENT DAYS WITH NUMBER OF SENIOR PLANNING AND OTHER MINISTRY OFFICIALS, US BANKERS, BUSINESSMEN, AND OTHERS WHICH HAVE PROVIDED INSIGHT INTO MOROCCO'S CURRENT ECONOMIC SITUATION AND OUTLOOK. NOT ALL OF THE ASSESSMENTS WE HAVE HEARD ARE FULLY CONSISTENT. FOR EXAMPLE, SENIOR OFFICIAL INVOLVED IN ECONOMIC AFFAIRS IN PRIME MINISTER'S OFFICE RECENTLY ASSERTED THAT BANK LIQUIDITY HIGH AND MONEY READILY AVAILABLE AT ABOUT 6.5 PER CENT. HE CLAIMED THIS IN PART RESULT OF SUBSTANTIAL INFLOWS OF ARAB OIL MONEY. FYI: THIS INFORMATION PROVIDED SHORTLY AFTER RETURN OF HIGH LEVEL TRADE INVESTMENT MISSION TO ARAB GULF STATES AND WOULD FIT IN WITH RECENT GOVERNMENT AND BUSINESS STATEMENTS THAT EFFORTS MAY BE MADE TO DEVELOP CASABLANCA AS ARAB FINANCIAL CENTER. BUT DESPITE HIS SENIOR POSITION, WE HAVE HAD REASON TO SUSPECT QUALITY AND TIMELINESS OF THIS OFFICIAL'S INFORMATION IN PAST. HIS JOB IS TO PROMOTE FOREIGN INVESTMENT AND INCLINATION IS TO PUT BEST FACE ON MATTERS. WHILE BUSINESS MISSION TO GULF STATES WIDELY REPORTED SUCCESSFUL, OTHERS (SEE BELOW) DOUBT SUBSTANTIAL OIL MONEY PRESENT IN MOROCCO. END FYI.

3. ON DECEMBER 13, LOCAL MANAGER OF BANK OF AMERICA INFORMED ECOUN THAT IF THERE ARE SUBSTANTIAL AMOUNTS OF ARAB OIL MONEY IN MOROCCO, BANKING COMMUNITY NOT AWARE OF IT. ASSERTED THAT FOR PAST MONTH BANK LIQUIDITY HAS BEEN EXTRAORDINARILY TIGHT. ALL BUT THREE OR FOUR OF THIRTY-SEVEN BANKS HAVE BEEN FORCED TO BORROW FROM CENTRAL BANK--AT 12 3/4 PER CENT. WHILE LONG-TERM OUTLOOK FOR MOROCCO REMAINS ATTRACTIVE, BANK OF AMERICA EXPECTS SIGNIFICANT PROFIT SQUEEZE DURING NEAR-TERM. HAVING OPERATED AT LOSS SINCE ESTABLISHMENT HERE, FACED WITH MOROCCANIZATION DEADLINE, AND CONFRONTING PERIOD OF PROBABLE LIMITED OFFICIAL USE

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AUSTERITY, BANK HAS DECIDED TO SELL OUT. PURCHASER IS BANQUE MAROCAIN POUR LE COMMERCE EXTERIEUR (BMCE). BANK OF AMERICA ALREADY HAD SMALL PARTICIPATION OF ABOUT 2 1/2 PER CENT IN BMCE. PART OF SALE PROCEEDS WILL GO TO INCREASE THIS PARTICIPATION; PART WILL BE REPATRIATED. MANAGER REPORTS HE MORE THAN SATISFIED WITH SALES PRICE AND ASSERTS DECISION MORE INFLUENCED BY OBJECTIVE ASSESSMENT ECONOMIC OUTLOOK THAN DIFFICULTY IN FINDING LOCAL PARTNER. FYI: ANOTHER MULTI-

NATIONAL COMPANY HAS BEEN LOST AS RESULT MOROCCANIZATION PROGRAM (SEE RABAT A-143 AND CASABLANCA A-51). DEPARTURE BANK OF AMERICA WILL INEVITABLY AFFECT DECISIONS OF OTHER COMPANIES, POSSIBLY INCLUDING CHASE MANHATTAN, WHICH HAS BEEN INVESTIGATING OPPORTUNITIES HERE. END FYI.

4. SENIOR OFFICIAL MINISTRY OF PLAN PRESENTS IN-BETWEEN ASSESSMENT. ACKNOWLEDGES IMPACT UNUSUALLY LARGE IMPORTS OF INFLATION-PRICED AGRICULTURAL COMMODITIES AS RESULT POOR CROP YEAR, BUT SAYS YEAR-END EXTERNAL ACCOUNT WILL SHOW NEAR BALANCE, EVEN SMALL SURPLUS FOR YEAR. FOLLOWING KING'S NOVEMBER 18 SPEECH, SOME HAD FEARED YEAR WOULD END IN ANOTHER DEFICIT. BUT, PRIMARILY DUE TO REMITTANCES FROM MOROCCAN WORKERS WHICH HAVE INCREASED BEYOND EXPECTATIONS, MAY BE POSITIVE BALANCE OF UP TO \$1 MILLION, WITH NO WINDOW-DRESSING OR OTHER JIGGERY-POKERY INVOLVED.

5. SINCE INCREASE OF PHOSPHATE PRICES, PHOSPHATES EARN ABOUT 60 PER CENT OF MOROCCO'S FOREIGN EXCHANGE WHILE AGRICULTURE CONTRIBUTES ABOUT A QUARTER. IMPORTANCE AGRICULTURE CONSIDERABLY GREATER IN TERMS GNP SINCE SEVENTY-FIVE PER CENT OF THE POPULATION DEPENDENT ON LAND. RAINS AGAIN DELAYED BEYOND NORMAL AND SATELLITE FORECASTS REMAIN UNPROMISING. WHILE STILL TOO EARLY TO WRITE OFF THIS CROP, MUCH MORE DELAY IN ARRIVAL RAINS WILL INCREASE PERSPECTS FOR SUBSTANTIAL IMPORTS FOOD GRAINS AGAIN IN 1975.

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6. FINANCE DIRECTOR NATIONAL PHOSPHATE OFFICE (OCP) CONFIRMS FINANCIAL STRINGENCY. SAYS CURRENT INTER-BANK RATE NEAR 9 PER CENT, BUT NO MONEY AVAILABLE AT THIS RATE AND BANKS LINING UP AT CENTRAL BANK 12 3/4 PER CENT WINDOW.

7. SOME OF THESE ADVERSE EFFECTS MAY BE MITIGATED BY FURTHER INCREASES IN PHOSPHATE PRICES. RUMOR OF SEVERAL WEEK'S DURATION THAT 8 PER CENT PRICE INCREASE WOULD GO INTO EFFECT JANUARY 1, 1975 MOVING THE PRICE FOR HIGHEST QUALITY PHOSPHATE LIMITED OFFICIAL USE

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ROCK FROM CURRENT \$63 PER TON TO \$68 CONFIRMED WITHIN PAST TWO DAYS BY OCP FINANCE DIRECTOR AS WELL AS SENIOR FOREIGN EXCHANGE OFFICIAL. IF MARKET SUPPORTS PRICE, INCREASE WILL RAISE MOROCCO'S GROSS REVENUE FOR THE YEAR BY \$100 MILLION AND GO SOME DISTANCE TOWARDS OFFSETTING DETERIORATING AGRICULTURAL SITUATION. FOREIGN EXCHANGE OFFICE CONTACT ALSO REPORTS THAT DEBATE IS IN COURSE WITHIN GOM ABOUT WHETHER AND BY HOW MUCH WORLD AGRICULTURAL COMMODITY PRICE INCREASES SHOULD BE PASSED ON TO LOCAL CONSUMERS. DESPITE DISCLAIMERS, RISE IN SUBSIDIZED COMMODITY PRICES SEEMS ALMOST INEVITABLE; BUT UNLESS ON BROADER SCALE THAN WE HAVE BEEN LED BELIEVE LIKELY WILL NOT SIGNIFICANTLY CHANGE ECONOMIC PICTURE SKETCHED HERE. HOLDING PRICES DOWN, EVEN MODERATELY, THROUGH CONTINUED SUBSIDIES IMPLIES CONSIDERABLE DIVERSION FUNDS FROM INVESTMENT TO OPERATING BUDGET (JUDGMENT SHARED BY SEVERAL SENIOR GOM OFFICIALS). TOO EARLY TO BE SURE WHAT TRADE-OFF WILL BE BETWEEN COMMODITY PRICES AND DEVELOPMENT PLAN OBJECTIVES. PRIVATE SECTOR INVESTMENT HAS ALREADY DECLINED SHARPLY, BUT THERE ARE STRONG ARGUMENTS ON BOTH SUPPLY AND AGGREGATE DEMAND SIDES FOR TRYING TO MAINTAIN PUBLIC SECTOR TARGETS.

8. COMMENT AND ASSESSMENT: WHAT EMERGES FROM ALL THIS IS THAT DESPITE MORE FAVORABLE POSITION THAN MOST LDC'S, MOROCCO FINALLY BEING IMPACTED BY TIGHTER MONEY, HIGHER INTEREST RATES, AND SPIRALLING INFLATION WHICH MUCH OF WORLD HAS BEEN EXPERIENCING FOR MONTHS. HIGHER WORKER REMITTANCES SUGGEST INCREASED NEEDS BY DEPENDENTS HERE IN ORDER COPE WITH INFLATION. MAY ALSO REFLECT INCREASED PROPENSITY SAVE IN RESPONSE MOUNTING CONCERN ON PART MOROCCAN WORKERS IN EUROPE REGARDING JOBS OUTLOOK. FOR MAJOR US BANK TO LEAVE ARAB COUNTRY AT THIS TIME IMPLIES LITTLE REALISTIC HOPE NEAR-TERM INFLOWS OF LARGE SCALE OIL MONEY. IN SHORT, MOROCCAN FINANCIAL AND ECONOMIC OUTLOOK, WHILE FAR LESS BLEAK THAN MUCH OF WORLD, IS TIGHT AND PROMISES TO BECOME TIGHTER.

9. SOME CONTACTS SEE PROSPECTS FOR MAJOR GOM BORROWING IN EUROPEAN MARKET EARLY IN NEW YEAR TO HELP BRIDGE REVENUE SHORTFALL. AS MUCH AS \$100 MILLION MAY BE INVOLVED. IN OUR JUDGMENT, EVEN THIS WOULD LEAVE MOROCCO FACING FAIRLY TIGHT FINANCIAL SITUATION. DEVELOPMENT BUDGET IN PART BASED ON PROJECTED INCREASE OF \$800 MILLION FROM RISE IN PHOSPHATE LIMITED OFFICIAL USE

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PRICES. AGRICULTURAL IMPORTS THIS YEAR ALONE HAVE INCREASED BY PERHAPS \$650 MILLION. EVEN \$100 MILLION OFFSET FROM ADDITIONAL RISE IN PHOSPHATE PRICES PLUS \$100 MILLION BORROWING WOULD LEAVE GOM \$450 MILLION DOWN ON ANTICIPATED REVENUES, THOUGH EASING OF WORLD WHEAT, SUGAR AND VEGETABLE OIL PRICES COULD REDUCE FIGURE SOMEWHAT. OUTLOOK IS THUS FOR SOMEWHAT HIGHER FOOD PRICES PLUS REALLOCATION RESOURCES FROM DEVELOPMENT BUDGET INTO OPERATING BUDGET, SUPPLEMENTED BY SUBSTANTIAL OUTSIDE BORROWING TO COPE WITH NEW STRESSES IMPOSED BY SHIFTS IN WORLD ECONOMIC CONDITIONS. RESULTING SHUFFLING OF REAL INCOMES AND INCREASED UNEMPLOYMENT PROMISE INTERESTING TIMES AHEAD AS TRADE UNION AND POLITICAL ACTIVITY MOUNTS IN PROSPECT FIRST ELECTIONS SINCE 1970. END COMMENT.
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